

BEFORE THE

PUBLIC SERVICE COMMISSION OF WISCONSIN

Application of Milwaukee Water Works, Milwaukee County, Wisconsin, for 3720-WR-107
Authority to Increase Water Rates.

REBUTTAL TESTIMONY OF CARRIE LEWIS ON BEHALF OF THE MILWAUKEE WATER WORKS

1 **Q. Please state your name and business address.**

2 A. Carrie Lewis, Milwaukee Water Works, 841 N. Broadway, Milwaukee WI 53202

3 **Q. Have you previously submitted direct testimony in this proceeding?**

4 A. Yes, I did.

5 **Q. What is the purpose of your rebuttal testimony?**

6 A. The purpose of my rebuttal testimony is to address issues related to the Cost of Service Study,
7 Rate Design, and Proposed Economic Development Water Rate.

8 **Q. What are your comments with respect to the staff's Cost of Service Study?**

9 A. The Public Service Commission of Wisconsin (PSCW) staff took a considerably different
10 approach to the Cost of Service Study from previous Milwaukee Water Works rate cases. These
11 differences are explained in detail in PSCW staff's direct testimony, Exhibit 12.2 (PSC REF#:
12 129346). They include significantly different base to max day and base to max hour ratios, lower
13 maximum day and hour consumptions, classifying all pumping plant as major pumping plant, the
14 assumption that customer contributions only fund distribution mains, the average allocation of
15 Accounts 660, 665, 666, and 678 to all cost functions, changing the division of Accounts 662 and
16 673 between transmission and distribution mains from the last rate case, and using different

1 max day and max hour extra-capacity ratios from previous rate cases. It is explained by PSCW
2 staff that this different approach now brings Milwaukee in line with the way the PSCW staff
3 analyzes rate increase requests in the rest of the state, so the concept seems fair. However, the
4 many changed assumptions somewhat complicate the interpretation of the basis of the rate
5 design for this requested increase.

6 **Q. What are your comments with respect to the Rate Design Proposal?**

7 A. Regarding the original Rate Design Proposal, Milwaukee Water Works had a major area of
8 disagreement with the impact of the rate increase to very large industrial customers who have
9 the majority of their water use in the fourth block (over 2,000,000 cubic feet per quarter).
10 While understanding that the increase to that subset of customers had been tempered by PSCW
11 staff to 92% of their cost of service, the rate shock impact was still severe. As described in
12 Exhibit 12.2 (PSC REF#:129346), Schedule 14, Page 1 of 3, the rate increase to urban residential,
13 commercial and public authority customers ranged from 26.8% to 39.4%, while the increase to
14 industrial customers was 50.5%. The magnitude of the increase to the very large customers was
15 unexpected and of extreme concern to MWW. MWW concerns were communicated to PSCW
16 staff in various telephone conversations.

17 MWW very much appreciates PSCW staff taking these concerns and comments into
18 consideration and presenting the Alternative Rate Design Proposal on April 23, 2010 in Exhibit
19 12.4 (PSC REF#: 130475). The Alternative Rate Design Proposal assigns 87% of the cost of
20 service to this type of customer, and thereby lessens the severity of the increase on very large
21 industrial customers. For this reason, MWW prefers the Alternative Rate Design Proposal. It is
22 understood that the very large industrial customers will be expected to incrementally reach
23 100% of the cost of service in future rate cases and that their percentage increase will have to
24 be comparatively higher than other customer types in order to close this gap.

1 Rates for wholesale customers are the same in the Alternative Rate Design Proposal as
2 the original rate proposal. The rate design has a major change from having the same volumetric
3 rate, and variable service charges, for each customer to the proposed rate having different
4 volumetric rates and different service charges for each customer. MWW has questions about
5 the very large increases to some of these customers and may have additional comments after
6 seeing their testimony.

7 **Q. How will this increase impact customers and how does this compare to other utilities?**

8 A. Under the Alternative Rate Design Proposal, the average single family residential water bill will
9 increase \$11.43 per quarter (based on 15 Ccf of water used) to \$47.70 per quarter. Milwaukee
10 will move from 5th lowest of 83 rate tariffs in the seven-county region of southeast Wisconsin to
11 36th lowest. This is depicted in Exhibit 1.12. Among the Class AB utilities in the seven-county
12 region, arguably more representative a peer group for comparison, Milwaukee will move from
13 3rd lowest of 35 tariffs to 21st lowest. This is depicted in Exhibit 1.13. MWW instituted a
14 campaign to encourage customers to find and fix water leaks prior to the rate increase coming
15 into effect. As of May 5, 2010, 38,000 bill stuffers had been mailed to customers. The bill
16 stuffer is depicted in Exhibit 1.14. A detailed brochure (Exhibit 1.15) is being mailed to
17 customers who request it and is also available on the MWW web site.

18 Under the Alternative Rate Design Proposal, very large industrial customers will see an
19 increase in line with those of other customer classes. Based on a survey of large industrial
20 customers in Wisconsin and throughout the United States, prepared by PSCW and released in
21 draft form (Exhibit 1.16), Milwaukee's large industrial customers will continue to have extremely
22 favorable water costs. This survey describes utility quarterly water bills for industrial customers
23 using 5,000,000 cubic feet of water per quarter. In the survey at present rates, the cost to these

1 customers is \$41,151, third lowest of 28 cities. At proposed rates, the cost to Milwaukee
2 industrial customers would be \$55,942, fifth lowest of these 28 cities.

3 Under the rate design, wholesale customers are assigned a wide range of percentage
4 increases, some of which are very large. MWW questions how there could be such a significant
5 change in cost of service since the last conventional rate case that would result in these large
6 increases. The increase applies to the cost of purchased water only, and these utilities have
7 many other costs that form the basis of rates to their customers. The proportion that the cost
8 of Milwaukee water is of these utilities' total costs varies. Other factors that could impact the
9 customers of the wholesale utilities include where the utilities are in their rate cycle, their
10 current rates of return, and upcoming costly maintenance projects. Therefore, it is difficult for
11 MWW to understand the impact of the rate increase on the wholesale utilities and to their
12 customers. It is worth noting, however, that based on the wholesale utilities' Annual Reports to
13 PSCW, all but one have higher rates of return in 2009 than MWW, and three have higher rates
14 of return than the PSCW benchmark of 6.3%.

15 Milwaukee customers will continue to benefit from fresh, safe, high quality water at
16 reasonable prices.

17 **Q. Did you agree with the Proposed Economic Development Water Rate for Milwaukee Water**
18 **Works?**

19 A. Overall, MWW found the Proposed Economic Development Water Rate (EDWR) satisfactory,
20 and thanks the PSCW for considering the request and developing the rate. The description was
21 very thorough and included important features (such as adequacy of sewer service to a property
22 and exceptions for irrigation/cooling water) that had not been considered by MWW. However,
23 there are aspects of the EDWR we believe should be modified to make initial and continued
24 eligibility for the rate less onerous. Exhibit 1.17 is a certified copy of Resolution 100056,

1 Resolution directing the Milwaukee Water Works Superintendent to provide rebuttal testimony
2 to the Public Service Commission of Wisconsin relative to the Proposed Economic Development
3 Water Rate for Milwaukee Water Works and its Exhibit 1, effective May 10, 2010. Modifications
4 are noted as edits to the original PSCW language in Exhibit 1.18. The reason for each requested
5 modification is described below, referencing the section in the original PSCW document, Exhibit
6 12.3 (PSC REF# 129347).

7 Section 1.A. Baseline water consumption for existing customers was changed to the
8 average consumption of water in the previous 12 billing periods, replacing the highest
9 consumption in the previous 24 billing periods. The requirement that a business must increase
10 water usage over the maximum during the previous two year period in order to qualify for the
11 EDWR is very stringent. MWW suggests that the increased water usage should be in excess of
12 typical usage and that a one year time period to determine typical usage is appropriate.

13 Section 2.A.iv. The original language required that a customer swear or affirm that it
14 would not be increasing its water consumption by the amount necessary to qualify for the rate
15 but for the availability of the EDWR. This was changed to the customer swearing or affirming
16 that the availability of the rate was a factor in their decision to increase water consumption by
17 the amount necessary to qualify for the rate. There are many factors that a business will
18 evaluate prior to making a decision to expand or relocate, which would include but not likely be
19 limited to the availability of this EDR. The change makes the requirement a reasonable one. An
20 alternative would be to remove this requirement completely.

21 Section 2.A.v. This new section includes language for job creation criteria for a
22 customer to qualify for the Economic Development Rate. The MWW request for the EDR
23 contained criteria for job creation to be met to be eligible for the rate. According to testimony
24 of Andrew Behm (Exhibit D12.22, lines 20 to 23, PSC REF# 130480), this requirement was not

1 included "because it would be very difficult, if not impossible, to authenticate job creation" and
2 the requirement would "place onerous verification and reporting requirements on MWW." In
3 fact, the City of Milwaukee Department of City Development (DCD) regularly monitors job
4 creation and retention in connection with the administration of economic development
5 projects. DCD has agreed to provide services to MWW to monitor and verify job creation and
6 retention required of customers that qualify for the Economic Development Water Rate.

7 Section 5. The PSCW proposal states that if the customer fails to use the increased
8 amount of water for two consecutive billing periods, the customer ceases to qualify for the EDR.
9 This has been changed to four consecutive billing periods. This would enable water-intensive
10 businesses that have pronounced seasonal fluctuations in their water usage patterns to
11 maintain eligibility for the rate.

12 Section 8. The length of time that the rate is open for customers to begin taking service
13 is changed from 365 days to two years from the date on which the rate takes effect. This
14 change would provide a more reasonable time frame within which a business deciding to
15 expand or relocate could have facilities in place and start production.

16 **Q. Do you have any other comments?**

17 A. Yes. The rates for private fire protection service (Pf-1) have not changed since rate case 3720-
18 WR-104. The effective date of that rate case was June 1, 2002. I request that PSCW staff review
19 these rates for increase.

20 **Q. Did you notify your customers of this hearing?**

- 1 A. The hearing date will be published in the Milwaukee Journal Sentinel on May 30, 2010 and June
2 6, 2010 and in various community newspapers on their weekly publication date prior to the
3 hearing. Certified copies of the proofs of notice will be provided.
- 4 **Q. Does this conclude your rebuttal testimony?**
- 5 A. Yes.